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**MATTHEW P. SCHELLINGER, II**

**FEBRUARY 14, 2019**



**DOCKET NO. 2018-257-WS**

# Application of Kiawah Island Utility, Incorporated for Adjustment of Rates and Charges and Modifications to Certain Terms and Conditions for the Provision of Water and Sewer Service

**DIRECT TESTIMONY AND EXHIBITS OF**

**MATTHEW P. SCHELLINGER II**

**ON BEHALF OF**

**THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2018-257-WS**

**IN RE: APPLICATION OF KIAWAH ISLAND UTILITY, INCORPORATED FOR  
ADJUSTMENT OF RATES AND CHARGES AND MODIFICATIONS TO CERTAIN  
TERMS AND CONDITIONS FOR THE PROVISION OF WATER AND SEWER  
SERVICE**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Matthew P. Schellinger II. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff (“ORS”) in the Utility Rates and Services Division as a Regulatory Analyst.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a Bachelor of Science Degree with a major in Accounting from the University of South Florida in 2012. I received a Master of Business Administration with a focus in Management and Strategy from Western Governors University in 2016. From 2007 to 2013, I was employed as a controller for an insurance agency. In that capacity, I performed general corporate accounting functions on a daily and monthly basis. In February 2013, I began my employment with ORS as an Auditor. In May 2016, I joined the Utility Rates and Services Division as a Regulatory Analyst.

**Q. HAVE YOU TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA (“COMMISSION”)?**

**A.** Yes. I have testified on numerous occasions before the Commission in connection with hearings concerning the Fuel Adjustment Clause, general rate cases, and natural gas proceedings.

**Q. WHAT IS THE MISSION OF THE OFFICE OF REGULATORY STAFF?**

**A.** ORS represents the public interest as defined by the South Carolina General Assembly as follows:

*The concerns of the using and consuming public with respect to public utility services, regardless of the class of customer, and preservation of continued investment in and maintenance of utility facilities so as to provide reliable and high-quality utility services.*

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to set forth the ORS staff findings relative to my review of the rate increase application (“Application”) submitted by Kiawah Island Utility, Inc. (“KIU” or “Company”). Specifically, I will focus on the following areas:

- KIU’s compliance with Commission rules and regulations;
- ORS adjustments to Test Year revenue;
- ORS proposed rates, proposed revenues, and resulting operating margin;
- ORS customer growth calculation;
- KIU’s request to change certain tariff language;
- KIU’s cost justification of the Hydrant Maintenance Fee;
- ORS recommendations for KIU’s three factor overhead allocator; and,
- ORS recommendations related to the Tax Cuts and Jobs Act;

**Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR TESTIMONY AND EXHIBITS.**

**A.** ORS used ORS Business Office Compliance Review results, information provided by KIU in its application, and additional information provided by KIU during our business review and facility site inspections. ORS also reviewed KIU's financial statements and performance bond documents submitted to the Commission.

**Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATIONS, SERVICE TYPES, AND CUSTOMER BASE SERVED BY KIU.**

**A.** KIU is a public utility providing water storage and distribution services and sewer collection and treatment services to the residential, commercial, and irrigation customers on Kiawah Island. KIU's operations are classified by the National Association of Regulatory Utility Commissioners ("NARUC") as a Class A water and wastewater utility according to water and sewer revenues reported on its application for the test year ending December 31, 2017 ("Test Year"). As of the end of the Test Year, KIU was providing water storage and distribution services to 4,110 customers and sewer collection and treatment services to 3,542 customers.

**Q. IS KIU IN COMPLIANCE WITH COMMISSION RULES AND REGULATIONS?**

**A.** Yes. Exhibit MPS-1 provides a summary of the Business Office Compliance Review completed by ORS and a summary of the water storage and distribution system as well as the sewer collection and treatment systems inspected by ORS on January 24, 2019. During the Business Office Compliance Review, ORS reviewed KIU's office records to determine compliance with Commission rules and regulations. ORS found that KIU is in compliance with all Commission requirements. Required operator logs were being kept at

the facility and general housekeeping items including system entry points, access roads, and signage were found to be satisfactory during the review.

## Water Storage and Distribution System

KIU purchases its potable water from St. Johns Water Company, Inc. located on Johns Island, South Carolina. KIU provides water service to its customers through a distribution system comprised of ductile iron and plastic pipes located on Kiawah Island. Safe drinking water standards are being met according to recent South Carolina Department of Health and Environmental Control (“DHEC”) sanitary survey reports. DHEC rated the water system as “Satisfactory” during its last sanitary survey. KIU stores excess purchased water in two Aquifer Storage and Recovery systems (“ASRs”) and three ground level storage tanks to help offset peak customer demands. As of the end of the Test Year, four hundred ninety-seven (497) fire hydrants were connected to the KIU water system. There is opportunity for customer growth.

## Sewer Collection and Treatment System

KIU provides sewer collection and treatment under a DHEC No Discharge (“ND”) permit. During ORS’s inspection, the sewer collection and treatment system was operating adequately and in accordance with DHEC rules and regulations. There have not been any recent sanitary sewer overflows and the collection system did not experience any substantial inflow and infiltration problems during the Test Year.

**Q. PLEASE EXPLAIN THE VARIANCE IN BILLING UNITS IN EXHIBIT MPS-2 AS COMPARED TO THE APPLICATION.**

A. Exhibit MPS-2, pages one and two, summarizes KIU's service revenues for the Test Year. The verification of the Company's service revenues requires a review of the

billing and water consumption units during the Test Year for each tariffed rate. During the course of ORS's review, inconsistencies were identified in customer classification. A reconciliation was conducted by ORS which identified approximately one hundred three (103) water and thirty-five (35) sewer billing units were incorrectly classified as commercial customers. The correction to classify the billing units to residential and irrigation classes was made by KIU on page 8, line 15 of the Direct Testimony of KIU witness Donald Burkett. I agree with the correction and have incorporated the correction into Exhibit MPS-2.

**Q. PLEASE EXPLAIN THE TEST YEAR REVENUE INFORMATION CALCULATED BY ORS.**

A. Exhibit MPS-2, pages one and two, summarizes KIU's service revenues for the Test Year. ORS used consumption data provided by KIU and verified during ORS's review. In addition, ORS used KIU's current and proposed rates as reflected in the Application for these calculations. ORS calculated KIU's Test Year revenue for water operations, as adjusted, of \$6,606,809 and revenue for sewer operations, as adjusted, of \$1,900,036. ORS calculated Test Year revenues for combined operations, as adjusted, of \$8,506,845. ORS made revenue adjustments of \$457,045 for water operations and \$76,496 for sewer operations to reflect ORS's analysis using the customer billing information provided by KIU and to incorporate additional miscellaneous revenue. These adjustments are reflected in ORS witness Butler's Adjustment Nos. 1A and 1B.

**Q. PLEASE EXPLAIN THE RATE DESIGN METHODOLOGY PROPOSED BY THE COMPANY IN THE APPLICATION.**

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A. KIU appears to have apportioned the requested revenue requirement equally to all base facility charges and consumption rates. The proposed increase to all customer classes is approximately 9.96%. ORS recommends the Commission approve the rate design methodology proposed by KIU as the proposed rate design methodology is fair and treats all customers equitably.

**Q. WHAT GUIDANCE DOES ORS RELY UPON TO FORM ITS OPERATING MARGIN RECOMMENDATION?**

A. ORS reviewed other state jurisdictions' calculation methodologies and operating margin results. It appears the calculation methodology and results vary widely by state jurisdiction. Some states rely on historic Commission-approved operating margins while others, due to the wide variation of utility characteristics, evaluate each rate filing based on the unique characteristics of each utility's financial and operational characteristics. In South Carolina, the Commission has the flexibility to authorize an operating margin at its discretion based on the evidence presented in each general rate case. In the past, ORS based its operating margin recommendation on the quality of service the utility provides its customers and the specifics of the utility's financial condition and operational performance. ORS used this approach to recommend the operating margin for KIU.

**Q. WHAT IS ORS'S RECOMMENDED OPERATING MARGIN FOR KIU?**

A. ORS recommends an operating margin of 14.00% based on KIU's efficient operations, excellent customer service quality, and current financial condition.

**Q. WHAT FACTORS DID THE ORS CONSIDER IN ITS OPERATING MARGIN RECOMMENDATION?**

1     **A.**             KIU is a well-operated water and wastewater utility with an established record of  
2             providing quality service to its customers. The Company, during the Test Year,  
3             demonstrated practical and forward-thinking decision making in its efforts to examine and  
4             to pursue additional service enhancements. Customers benefit from the Company's  
5             continued investments in infrastructure maintenance which provide reliable water and  
6             sewer service during severe weather events such as Hurricane Matthew.

7             Customers have and will continue to benefit from the Company's election, with  
8             parent company SouthWest Water Company ("SWWC"), to replace a variable rate  
9             construction loan with a fixed rate intercompany loan, stabilizing the burden of interest  
10            expenses in a rising interest rate environment. The subsequent recapitalization and  
11            refinancing in 2018 helped better align KIU's capital structure with a reasonable debt-to-  
12            equity ratio. These customer benefits support the ORS recommendation to maintain the  
13            operating margin at 14.00%.

14    **Q.     IS THE RECOMMENDED OPERATING MARGIN FAIR AND REASONABLE?**

15    **A.**             Yes. The purpose of an operating margin is to allow sufficient funding to enable  
16             the utility to reasonably provide quality services to its customers, support its business  
17             operations, recover appropriate expenses, and gain a reasonable return on its investments.  
18             The Company's current rates are based on a 14.00% operating margin.<sup>1</sup> At the time of the  
19             last rate case, KIU completed the construction of a second water supply line that benefits  
20             customers by providing uninterrupted water service when the older supply line needs  
21             maintenance and repairs. The operating margin of 14.00% was sufficient to recover  
22             construction expenses and maintain functionality of the Company's business operations.

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<sup>1</sup> Docket No. 2016-222-WS; Order No. 2017-277(A)



ORS's recommendation provides the Company with sufficient incentive to reduce costs and maintain high-quality and reliable service its customers have come to expect. ORS's recommended operating margin is within the historic range of operating margins approved by the Commission for water and wastewater utilities.

**Q. PLEASE EXPLAIN THE PROPOSED RATES AND REVENUE INCREASE AS CALCULATED BY ORS AND PRESENTED IN EXHIBIT MPS-7.**

A. ORS designed rates utilizing the same rate design methodology proposed by the Company, including all accounting adjustments recommended by ORS witness Butler and an opportunity to earn the ORS's recommended 14.00% operating margin. The proposed rates and revenue requirement are shown in Exhibit MPS-2, pages three and four, and presented in Exhibit MPS-7. ORS proposed rates provide KIU with an increase of \$341,935 or 5.18% for water operations and of \$103,048 or 5.42% for sewer operations. ORS's revenue calculations include an adjustment to late fee revenues in proportion to annual revenues. The ORS revenue adjustments are reflected in ORS witness Butler's Adjustment No. 22.

ORS recommends a rate increase for KIU customers that is just, reasonable, and nondiscriminatory and will allow the Company an opportunity to earn a 14.00% operating margin.

For comparison purposes only, Audit Exhibit ALB-9 reflects KIU's operating experience, with ORS adjustments, as if the Company's requested increase in its Application was granted by the Commission.

**Q. DID ORS REVIEW THE DECREASE IN FIRE HYDRANT MAINTENANCE FEE AS PROPOSED BY KIU?**

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1 A. Yes. ORS reviewed the cost justification provided by Company witness Dennis in  
2 Exhibit BD-10. It is ORS's position that the cost justification provided by KIU to support  
3 a decrease in the hydrant maintenance fee is an accurate representation of the annual costs  
4 to maintain the fire hydrants on Kiawah Island.

5 **Q. PLEASE EXPLAIN THE ADJUSTMENTS ORS RECOMMENDS RELATED TO**  
6 **THE THREE FACTOR ALLOCATION METHODOLOGY USED BY KIU.**

7 A. KIU pays a Management Fee to SWWC for corporate services, such as finance,  
8 human resources, legal, and information technology, all of which are more fully described  
9 in KIU witness Hafeez's testimony. The Management Fee is determined for all SWWC  
10 operating subsidiaries based on a three-factor allocation methodology ("Methodology").  
11 The three factors used are Direct Operating Expense, Payroll Expense, and Total Value  
12 End of Year Gross Plant. In general, ORS supports the Methodology; however, ORS  
13 recommends certain adjustments be incorporated to the Direct Operating Expense and  
14 Total Value End of Year Gross Plant factors to better represent the actual operating  
15 experience of SWWC. ORS recommended and KIU accepted similar adjustments in  
16 Docket No. 2016-222-WS.

17 With regard to the Direct Operating Expense factor, SWWC included purchased  
18 water as an expense for determining the factor amount. ORS recommends purchased water  
19 be removed from the calculation of the Direct Operating Expense factor for several reasons.  
20 First, KIU treats purchased water expense as a pass through that is directly recoverable in  
21 revenue from the customers. KIU has an approved pass-through mechanism for purchased  
22 water expense.<sup>2</sup> Second, not all of the SWWC operating companies have a purchased water

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<sup>2</sup> Purchased Water Adjustment, approved in Docket No. 2016-222-WS, Order No. 2017-277(A)

1 expense. Finally, the prices for purchased water charged by third-party water providers  
2 across SWWC service territories differ greatly and are not representative of the experience  
3 of all customers.

4 In regard to Total Value End of Year Gross Plant factor, ORS determined SWWC  
5 provides operating and maintenance services through multiple contracts to customers under  
6 the Southeast Utilities (“SEU”) subsidiary. SWWC does not own the plant operated and  
7 maintained under these contracts. The Total Value End of Year Gross Plant amount used  
8 by SWWC to calculate the allocation factor is understated because the SEU gross plant is  
9 based on the gross book value of the plant systems owned by SEU and not representative  
10 of the Gross Plant actually operated and maintained by SEU.

11 **Q. DID ORS ACCEPT KIU’S ADJUSTMENT TO REDUCE MANAGEMENT FEES?**

12 **A.** Yes. ORS accepted the Company’s proposal to reduce Management Fees by  
13 \$338,625. ORS reserves its right to address the reasonableness of the Company’s overhead  
14 allocation methodology in future general rate cases.

15 **Q. PLEASE EXPLAIN ORS’S CUSTOMER GROWTH CALCULATION**  
16 **INCLUDING THE RESULTING CUSTOMER GROWTH FACTOR FOR KIU.**

17 **A.** To capture additional revenues and expenses generated by customers which may  
18 be added to the Company’s system, ORS included adjustments for water and sewer  
19 customer growth. The customer growth factors are determined by calculating the difference  
20 between the total number of customers at the end of the Test Year and the average number  
21 of customers during the Test Year then dividing the result by the average number of  
22 customers during the Test Year. As shown in Exhibit MPS-3, the projected growth for KIU

for water service is 0.3418% and sewer service is 0.1697%. These customer growth factors are reflected in ORS witness Butler's Adjustment No. 27.

**Q. PLEASE EXPLAIN THE STATUS OF THE PERFORMANCE BOND FOR KIU.**

A. KIU has on file with ORS and the Commission two current performance bonds – one for water operations and one for sewer operations. Each bond is secured by an Insurance Certificate (“IC”) from Atlantic Specialty Insurance Company as surety in the amount of \$350,000 each. ORS respectfully requests that the Commission continue to require KIU to maintain performance bonds for water and sewer operations in the amount of \$350,000 in compliance with S.C. Code Ann. § 58-5-720 (2015).

**Q. HAS KIU REQUESTED ANY CHANGES TO ITS NON-RECURRING CHARGES?**

**A.** Yes. The Company has requested changes to its non-recurring charges. Current tariff language reads as follows:

1. When a customer requests discontinuance of service for reasons other than major repair, maintenance, or construction at the service address or for the transfer of possession or ownership of the service address, the Company may charge the equivalent of three months of basic facilities charges for both water and sewer service and require payment of such charges when for any reason service is restored to that particular customer.

Proposed tariff language reads as follows:

1. When a customer requests discontinuance of service for the purpose of not receiving a monthly statement, the Company shall charge the equivalent of three months of basic facilities charges for both water and sewer service and require payment of such charges when for any reason service is restored to that particular customer.

ORS recommends the Commission approve this change to the non-recurring tariff language as the change better clarifies the procedure of the Company to allow seasonal customers the flexibility to discontinue service during periods when their property is not being used.

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**Q. PLEASE EXPLAIN THE TAX CUTS AND JOBS ACT (“TCJA”).**

A. On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. The TCJA contains provisions including, but not limited to, decreasing the corporate tax rate from 35% to 21%, effective January 1, 2018. Many South Carolina utilities under the jurisdiction of this Commission recover federal corporate income tax expenses at a corporate tax rate above 21% because federal income tax is a component of rates approved by the Commission.

On April 25, 2018 the Commission issued Order No. 2017-308 in Docket No. 2017-381-A which required all utilities to calculate and defer the tax effects resulting from the TCJA beginning January 1, 2018 with those impacts to be addressed in the next general rate case.

**Q. WHAT ARE THE IMPACTS OF THE TCJA ON KIU AND ITS CUSTOMERS?**

**A.** The impact of the TCJA is reflected in the following areas:

- A reduction in the federal corporate income tax rate from 35% to 21%;
- A re-valuation of Accumulated Deferred Income Taxes (“ADIT”) to incorporate the reduction in the federal income tax rate;
- Creation and amortization of Excess Deferred Income Taxes (“EDIT”); and,
- Return of excess revenues collected after January 1, 2018 to KIU customers.

**Q. PLEASE DESCRIBE THE IMPACT TO THE CUSTOMER DUE TO THE REDUCTION OF THE CORPORATE INCOME TAX RATE.**

<sup>3</sup> Based on ORS adjustments.

**Q. WHAT IS ACCUMULATED DEFERRED INCOME TAX AND WHY IS IT IMPORTANT?**

**A.** Many timing differences exist between when income taxes are collected from customers in rates and when the Company pays those taxes in cash to the United States Internal Revenue Service (“IRS”). Sometimes the taxes are paid sooner than when they are collected from customers (creating a deferred tax asset), and sometimes they are paid later (created a deferred tax liability). Deferred tax balances result from book/tax timing differences between recognition of income and expenses. Deferred tax balances, whether assets or liabilities, reverse over time and converge to zero over the life of the underlying item giving rise to the deferred tax balance.

**Q. PLEASE EXPLAIN WHY THE TCJA REQUIRES ACCUMULATED DEFERRED INCOME TAX TO BE REVALUED.**

**A.** When the tax rate is lowered, a portion of ADIT will never be paid which creates “excess deferred income taxes.” Excess deferred income taxes (“EDIT”) indicate the Company charged and collected from its customers higher taxes in the early years than the taxes the Company will pay in the future. The TCJA’s reduction in federal income tax rates create an obligation to return to customers the excess tax collected and reflected in EDIT.

**Q. PLEASE DESCRIBE THE DIFFERENT CLASSIFICATIONS OF EDIT.**

**A.** EDIT is derived from different types of assets, and those assets have differing treatment by the TCJA. I will discuss the treatment of protected and unprotected EDIT separately.

**Protected EDIT**

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The TCJA requires excess deferred taxes generally associated with property, and specifically connected to the accelerated depreciation of property, to be returned to customers in a manner that mimics the remaining life of the underlying assets that generated the ADIT. This is classified as “protected” EDIT. The IRS requires the Company to return the protected EDIT in a prescribed manner. To do otherwise, could trigger a tax normalization violation causing the Company to lose its ability to accelerate depreciation. The normalization rules require protected EDIT to be flowed back over the remaining lives of the property giving rise to the deferred tax balance.

## Unprotected EDIT

The remaining EDIT or “unprotected” EDIT may be treated by the Commission like any other regulatory liability in the rate-setting process. In other words, the Commission retains the discretion to determine the time period over which the unprotected EDIT is returned to customers. Most Commissions select a shorter time period for amortization of unprotected EDIT.

**Q. PLEASE EXPLAIN HOW KIU PROPOSES TO REVALUE AND RETURN EDIT TO ITS CUSTOMERS.**

A. KIU calculated the return of protected EDIT utilizing the Average Rate Assumption Method (“ARAM”) to the extent possible. KIU proposes an amortization period of five years for their unprotected EDIT. This amount, when grossed-up for taxes, reduces the revenue requirement necessary to be recovered from customers by \$38,640. The classification of this number is provided in Exhibit MPS-4. ORS recommends the Commission approve KIU’s proposed treatment for the return of protected and unprotected

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EDIT and ORS's recommendation is reflected in ORS witness Butler's Adjustment No. 28.

**Q. PLEASE DESCRIBE ORS'S POSITION ON THE IMPACT OF EDIT TO KIU'S RATE BASE.**

A. The creation of the EDIT regulatory liability is offset by the reduction to the ADIT which makes the impact to KIU's rate base neutral. ORS determined the appropriate amount for the EDIT liability, with ORS adjustments, is \$531,640. ORS included one year's worth of amortization of EDIT in the calculation of KIU's rate base. ORS's recommendation is reflected in ORS witness Butler's Exhibit ALB-1.

**Q. PLEASE DESCRIBE THE EXCESS REVENUES DEFERRAL PROPOSED BY KIU.**

A. In compliance with Commission Order No. 2018-308, KIU deferred the effects of the TCJA into a regulatory liability. The deferral included the differences between customer revenues actually billed by KIU and what KIU would have billed customers taking into account the reduced federal corporate tax rate beginning January 1, 2018. ORS utilized the Test Year, updated for known and measurable changes as adjusted, to calculate the excess revenues collected since January 1, 2018. ORS expects rates to be effective no later than April 23, 2019. Exhibit MPS-5 reflects the specific calculation related to the value of KIU's excess deferral account.

**Q. ARE ORS AND KIU IN AGREEMENT ON THE TIME PERIOD IN WHICH EXCESS REVENUE SHOULD BE RETURNED TO CUSTOMERS?**

**A.** Yes. ORS recommends the Commission approve KIU's proposal to return excess revenues created by the TCJA to customers over thirty-six (36) months through a rate

ABCDEFGHIJKLMN|EARLYRUGHS-2ND-3RD-4TH-5TH-6TH-7TH-8TH-9TH-10TH-11TH-12TH-13TH-14TH-15TH-16TH-17TH-18TH-19TH-20TH-21ST-22ND-23RD-24TH-25TH-26TH-27TH-28TH-29TH-30TH-31ST-32ND-33RD-34TH-35TH-36TH-37TH-38TH-39TH-40TH-41ST-42ND-43RD-44TH-45TH-46TH-47TH-48TH-49TH-50TH-51ST-52ND-53RD-54TH-55TH-56TH-57TH-58TH-59TH-60TH-61ST-62ND-63RD-64TH-65TH-66TH-67TH-68TH-69TH-70TH-71ST-72ND-73RD-74TH-75TH-76TH-77TH-78TH-79TH-80TH-81ST-82ND-83RD-84TH-85TH-86TH-87TH-88TH-89TH-90TH-91ST-92ND-93RD-94TH-95TH-96TH-97TH-98TH-99TH-100TH-101ST-102ND-103RD-104TH-105TH-106TH-107TH-108TH-109TH-110TH-111ST-112ND-113RD-114TH-115TH-116TH-117TH-118TH-119TH-120TH-121ST-122ND-123RD-124TH-125TH-126TH-127TH-128TH-129TH-130TH-131ST-132ND-133RD-134TH-135TH-136TH-137TH-138TH-139TH-140TH-141ST-142ND-143RD-144TH-145TH-146TH-147TH-148TH-149TH-150TH-151ST-152ND-153RD-154TH-155TH-156TH-157TH-158TH-159TH-160TH-161ST-162ND-163RD-164TH-165TH-166TH-167TH-168TH-169TH-170TH-171ST-172ND-173RD-174TH-175TH-176TH-177TH-178TH-179TH-180TH-181ST-182ND-183RD-184TH-185TH-186TH-187TH-188TH-189TH-190TH-191ST-192ND-193RD-194TH-195TH-196TH-197TH-198TH-199TH-200TH-201ST-202ND-203RD-204TH-205TH-206TH-207TH-208TH-209TH-210TH-211ST-212ND-213RD-214TH-215TH-216TH-217TH-218TH-219TH-220TH-221ST-222ND-223RD-224TH-225TH-226TH-227TH-228TH-229TH-230TH-231ST-232ND-233RD-234TH-235TH-236TH-237TH-238TH-239TH-240TH-241ST-242ND-243RD-244TH-245TH-246TH-247TH-248TH-249TH-250TH-251ST-252ND-253RD-254TH-255TH-256TH-257TH-258TH-259TH-260TH-261ST-262ND-263RD-264TH-265TH-266TH-267TH-268TH-269TH-270TH-271ST-272ND-273RD-274TH-275TH-276TH-277TH-278TH-279TH-280TH-281ST-282ND-283RD-284TH-285TH-286TH-287TH-288TH-289TH-290TH-291ST-292ND-293RD-294TH-295TH-296TH-297TH-298TH-299TH-300TH-301ST-302ND-303RD-304TH-305TH-306TH-307TH-308TH-309TH-310TH-311ST-312ND-313RD-314TH-315TH-316TH-317TH-318TH-319TH-320TH-321ST-322ND-323RD-324TH-325TH-326TH-327TH-328TH-329TH-330TH-331ST-332ND-333RD-334TH-335TH-336TH-337TH-338TH-339TH-340TH-341ST-342ND-343RD-344TH-345TH-346TH-347TH-348TH-349TH-350TH-351ST-352ND-353RD-354TH-355TH-356TH-357TH-358TH-359TH-360TH-361ST-362ND-363RD-364TH-365TH-366TH-367TH-368TH-369TH-370TH-371ST-372ND-373RD-374TH-375TH-376TH-377TH-378TH-379TH-380TH-381ST-382ND-383RD-384TH-385TH-386TH-387TH-388TH-389TH-390TH-391ST-392ND-393RD-394TH-395TH-396TH-397TH-398TH-399TH-400TH-401ST-402ND-403RD-404TH-405TH-406TH-407TH-408TH-409TH-410TH-411ST-412ND-413RD-414TH-415TH-416TH-417TH-418TH-419TH-420TH-421ST-422ND-423RD-424TH-425TH-426TH-427TH-428TH-429TH-430TH-431ST-432ND-433RD-434TH-435TH-436TH-437TH-438TH-439TH-440TH-441ST-442ND-443RD-444TH-445TH-446TH-447TH-448TH-449TH-450TH-451ST-452ND-453RD-454TH-455TH-456TH-457TH-458TH-459TH-460TH-461ST-462ND-463RD-464TH-465TH-466TH-467TH-468TH-469TH-470TH-471ST-472ND-473RD-474TH-475TH-476TH-477TH-478TH-479TH-480TH-481ST-482ND-483RD-484TH-485TH-486TH-487TH-488TH-489TH-490TH-491ST-492ND-493RD-494TH-495TH-496TH-497TH-498TH-499TH-500TH-501ST-502ND-503RD-504TH-505TH-506TH-507TH-508TH-509TH-510TH-511ST-512ND-513RD-514TH-515TH-516TH-517TH-518TH-519TH-520TH-521ST-522ND-523RD-524TH-525TH-526TH-527TH-528TH-529TH-530TH-531ST-532ND-533RD-534TH-535TH-536TH-537TH-538TH-539TH-540TH-541ST-542ND-543RD-544TH-545TH-546TH-547TH-548TH-549TH-550TH-551ST-552ND-553RD-554TH-555TH-556TH-557TH-558TH-559TH-560TH-561ST-562ND-563RD-564TH-565TH-566TH-567TH-568TH-569TH-570TH-571ST-572ND-573RD-574TH-575TH-576TH-577TH-578TH-579TH-580TH-581ST-582ND-583RD-584TH-585TH-586TH-587TH-588TH-589TH-590TH-591ST-592ND-593RD-594TH-595TH-596TH-597TH-598TH-599TH-600TH-601ST-602ND-603RD-604TH-605TH-606TH-607TH-608TH-609TH-610TH-611ST-612ND-613RD-614TH-615TH-616TH-617TH-618TH-619TH-620TH-621ST-622ND-623RD-624TH-625TH-626TH-627TH-628TH-629TH-630TH-631ST-632ND-633RD-634TH-635TH-636TH-637TH-638TH-639TH-640TH-641ST-642ND-643RD-644TH-645TH-646TH-647TH-648TH-649TH-650TH-651ST-652ND-653RD-654TH-655TH-656TH-657TH-658TH-659TH-660TH-661ST-662ND-663RD-664TH-665TH-666TH-667TH-668TH-669TH-670TH-671ST-672ND-673RD-674TH-675TH-676TH-677TH-678TH-679TH-680TH-681ST-682ND-683RD-684TH-685TH-686TH-687TH-688TH-689TH-690TH-691ST-692ND-693RD-694TH-695TH-696TH-697TH-698TH-699TH-700TH-701ST-702ND-703RD-704TH-705TH-706TH-707TH-708TH-709TH-710TH-711ST-712ND-713RD-714TH-715TH-716TH-717TH-718TH-719TH-720TH-721ST-722ND-723RD-724TH-725TH-726TH-727TH-728TH-729TH-730TH-731ST-732ND-733RD-734TH-735TH-736TH-737TH-738TH-739TH-740TH-741ST-742ND-743RD-744TH-745TH-746TH-747TH-748TH-749TH-750TH-751ST-752ND-753RD-754TH-755TH-756TH-757TH-758TH-759TH-760TH-761ST-762ND-763RD-764TH-765TH-766TH-767TH-768TH-769TH-770TH-771ST-772ND-773RD-774TH-775TH-776TH-777TH-778TH-779TH-780TH-781ST-782ND-783RD-784TH-785TH-786TH-787TH-788TH-789TH-790TH-791ST-792ND-793RD-794TH-795TH-796TH-797TH-798TH-799TH-800TH-801ST-802ND-803RD-804TH-805TH-806TH-807TH-808TH-809TH-810TH-811ST-812ND-813RD-814TH-815TH-816TH-817TH-818TH-819TH-820TH-821ST-822ND-823RD-824TH-825TH-826TH-827TH-828TH-829TH-830TH-831ST-832ND-833RD-834TH-835TH-836TH-837TH-838TH-839TH-



1            decrement on customer's monthly bills. ORS calculated the value of the excess revenue  
2            deferral liability to be \$251,379<sup>4</sup> and recommends the return of excess revenue be  
3            apportioned to customers by meter size. Exhibit MPS-6 details the monthly estimate of the  
4            expected rate decrement. Due to rounding issues as well as changing customer growth,  
5            KIU should be allowed to discontinue the rate decrement when the entire \$251,379 is  
6            returned to customers.

7    **Q.       DOES THIS CONCLUDE YOUR TESTIMONY?**

8    **A.            Yes, it does.**

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<sup>4</sup> This number should be recalculated based on the Commission ordered operating experience of the Company.



## ORS BUSINESS OFFICE COMPLIANCE REVIEW

<b>Utility:</b>	Kiawah Island Utility, Inc.
<b>Inspector(s):</b>	Matthew Schellinger
<b>Office:</b>	31 Sora Rail Rd., Kiawah Island, SC
<b>Utility Type:</b>	Water and Wastewater Utility
<b>Date:</b>	January 24, 2019
<b>Company Representative:</b>	Becky Dennis

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with R.103-510 and R. 103-710.	X		
2	Complaint records maintained in accordance with R.103-516 and R. 103-716.	X		Reviewed the complaint log in office as well as utility's response to complaints.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530 and R.103-730.	X		
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530 and R. 103-730.	X		
5	Deposits charged within the limits established by R.103-531 and R. 103-731.			No deposits charged.
6	Timely and accurate bills being rendered to customers in accordance with R.103-532 and R.103-732.	X		Customer bills are issued immediately following the reading of their meters.
7	Bill forms in accordance with R.103-532 and R.103-732.	X		Bill form is clear with adequate after-hours emergency contact information.
8	Adjustments of bills handled in accordance with R.103-533 and 103-733.	X		
9	Policy for customer denial or discontinuance of service in accordance with R.103-535 and 103-735.	X		
10	Notices sent to customers prior to termination in accordance with Rule R.103-535 and 103-735.	X		
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514.C and 103-714.C.	X		

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530 and 103-730.	X		
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514 and 103-714.	X		
14	Utility advised the Commission, in accordance with Rule 103-512 and 103-712 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, and emergencies during non-office hours.	X		
15	Utility verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the utility has at present time.			Water – 4,110 Sewer – 3,542
17	Utility has a current performance bond on file with the Commission. Amount of bond:	X		\$350,000 for water service & \$350,000 for sewer service
18	Utility maintains a documented Safety Program.	X		
19	Utility maintains a documented Emergency Response plan.	X		
20	Utility maintains a documented Preventative Maintenance plan.	X		
21	Utility submitted a current Annual Report.	X		
22	Utility is in compliance with Gross Receipts reporting and payment regulations.	X		



## Inspection Overview

	System Components Inspected	Specific Type	#	PSI	Capacity	Compliance			Comments
						Yes	No	N/A	
1	Well Sites		3			X			
2	Pump Houses		3			X			
3	Storage Tank	Pressurized	3		4.5 MG	X			
3a	Storage Tank	Non-Pressurized						X	
3b	Storage Tank	Overhead						X	
4	Chlorinator					X			
5	Other Chemicals in use					X			
6	Meters					X			
7	Hydrants		497			X			
8	Electrical Wiring acceptable					X			
9	Piping acceptable					X			
10	System free of leaks					X			
11	Access road adequate					X			
12	Ability for service area to expand					X			

Page 3 of 4



# ORS WASTEWATER SYSTEM INSPECTION REPORT

## Inspection Overview

<b>Date Inspected:</b>	January 24, 2019
<b>Inspector(s) Name:</b>	Matthew Schellinger
<b>Docket Number:</b>	2018-257-WS
<b>Utility Name:</b>	Kiawah Island Utility, Inc.
<b>Utility Representative:</b>	Becky Dennis
<b>System Type (collection, force main, lagoon, etc):</b>	Collection, force main, Lagoon, Retention
<b>Location of System:</b>	Kiawah Island
<b>Location of Utility Office:</b>	31 Sora Rail Rd., Kiawah Island, SC
<b>Treatment Type:</b>	Aeration, Chlorination
<b>Permit #:</b>	ND0017361
<b>Last SC DHEC Compliance Rating:</b>	Satisfactory
<b>Frequency checked by WWTF Operator:</b>	Daily
<b>Drinking Water Provider:</b>	Kiawah Island Utility, Inc.

	System Components Inspected	Compliance			Comments
		Yes	No	N/A	
1	Chlorinator	X			
2	Other chemicals in use	X			
3	Aerators present	X			Aerators operating properly
4	Plant fenced and locked	X			
5	Warning Signs Visible	X			
6	Fence in good condition	X			
7	Dikes in good condition	X			
8	Odor non-existent or limited	X			
9	Grass mowed	X			
10	Duckweed/Algae acceptable	X			
11	Grease build-up acceptable	X			
12	Plant free of debris	X			
13	Effluent Color acceptable	X			
14	Lift Stations present	X			53 lift stations
15	Failure Warning System adequate	X			
16	Electric Wiring adequate	X			
17	System free of leaks	X			
18	System free of overflows	X			
19	Access road adequate	X			
20	Ability for service area to expand	X			

**Additional Comments:** Effluent is mixed with potable and deep-well water prior to being sprayed onto island golf courses.

Office of Regulatory Staff  
Revenue Impact Analysis  
Kiawah Island Utility, Inc.  
Docket No. 2018-257-WS

ORS Pro-Forma Test Year Revenue at Current Rates

A	B	C	D	E	F	G
	Customer Classification	Consumption in 1,000 Gallons <sup>1</sup>	Usage Charge per 1,000 gallons	Annualized Service Units <sup>1</sup>	Base Facility Charge (BFC)	Test Year Revenue (C*D) + (E*F)
Water	<b>Residential</b>					
	5/8" Residential			34,740	\$34.29	\$1,191,235
	3/4" Residential			4,464	\$51.44	\$229,628
	1" Residential			3,396	\$85.73	\$291,139
	1 1/2" Residential			120	\$171.46	\$20,575
	2" Residential			72	\$274.35	\$19,753
	3" Residential			0	\$600.14	\$0
	4" Residential			0	\$1,722.32	\$0
	Consumption (0 - 11,000 gallons)	228,530	\$4.21			\$962,111
	Consumption (11,001 - 50,000 gallons)	186,788	\$4.72			\$881,639
	Consumption (Over 50,000 gallons)	42,409	\$5.03			\$213,317
	<b>Total Residential</b>	<b>457,727</b>		<b>42,792</b>		<b>\$3,809,397</b>
	<b>Commercial</b>					
	5/8" Commercial			528	\$34.29	\$18,105
	3/4" Commercial			168	\$51.44	\$8,642
	1" Commercial			168	\$85.73	\$14,403
	1 1/2" Commercial			132	\$171.46	\$22,633
	2" Commercial			156	\$274.35	\$42,799
	3" Commercial			36	\$600.14	\$21,605
	4" Commercial			12	\$1,722.32	\$20,668
	Consumption (All)	61,088	\$5.03			\$307,273
	<b>Total Commercial</b>	<b>61,088</b>		<b>1,200</b>		<b>\$456,128</b>
	<b>Hotel and Motel</b>					
	Hotel & Motel Service			3,060	\$13.77	\$42,136
	Consumption (All)	12,480	\$5.03			\$62,774
	<b>Total Hotel and Motel</b>	<b>12,480</b>		<b>3,060</b>		<b>\$104,910</b>
	<b>Golf Course Irrigation</b>					
	Deep Well Water - Golf Course Irrigation			36	\$1,065.54	\$38,359
	Consumption (All)	76,098	\$0.28			\$21,307
	Potable Water - Golf Course Irrigation			48	\$815.39	\$39,139
	Consumption (All)	32,837	\$5.03			\$165,170
	<b>Total Golf Course Irrigation</b>	<b>108,935</b>		<b>84</b>		<b>\$263,975</b>
	<b>Irrigation Service</b>					
	5/8" Irrigation			2,124	\$34.29	\$72,832
	3/4" Irrigation			960	\$51.44	\$49,382
	1" Irrigation			1,152	\$85.73	\$98,761
	1 1/2" Irrigation			288	\$171.46	\$49,380
	2" Irrigation			336	\$274.35	\$92,182
	3" Irrigation			60	\$600.14	\$36,008
	4" Irrigation			0	\$1,722.32	\$0
	Consumption (0 - 50,000 gallons)	110,000	\$4.72			\$519,200
	Consumption (Over 50,000 gallons)	189,498	\$5.03			\$953,175
	<b>Total Irrigation Service</b>	<b>299,498</b>		<b>4,920</b>		<b>\$1,870,920</b>
	<b>Fire Hydrant Service</b>					
	Fire Hydrant			497	\$134.79	\$66,991
	<b>Total Fire Hydrant Service</b>					<b>\$66,991</b>
	<b>Fire Line Service</b>					
	2" Fire Line			228	\$8.09	\$1,845
	3" Fire Line			12	\$14.81	\$178
	4" Fire Line			96	\$25.67	\$2,464
	6" Fire Line			0	\$51.34	\$0
	8" Fire Line			12	\$89.93	\$1,079
	<b>Total Fire Line Service</b>					<b>\$5,566</b>
	<b>Water Service Total</b>	<b>939,728</b>		<b>52,056</b>		<b>\$6,577,887</b>
	<b>Total Miscellaneous Revenues <sup>2</sup></b>					<b>\$28,922</b>
	<b>Total Water Operating Revenues</b>					<b>\$6,606,809</b>

Calculation Methodology:  
(1) Consumption and Units reflected as reported during test year (Corrected through URR#2). Growth factor not included for comparison purposes.  
(2) Customer Tap Fees, Deposits and Interest on Deposits not included in computations.

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Office of Regulatory Staff  
Revenue Impact Analysis  
Kiawah Island Utility, Inc.  
Docket No. 2018-257-WS

ORS Pro-Forma Test Year Revenue at Current Rates						
A	B	C	D	E	F	G
	Customer Classification	Consumption in 1,000 Gallons <sup>1</sup>	Usage Charge per 1,000 gallons	Annualized Service Units <sup>1</sup>	Base Facility Charge (BFC)	Test Year Revenue (C*D) + (E*F)
Sewer	<u>Residential</u>					
	5/8" Residential			34,452	\$26.20	\$902,642
	3/4" Residential			3,984	\$39.30	\$156,571
	1" Residential			3,084	\$65.49	\$201,971
	1 1/2" Residential			120	\$130.98	\$15,718
	2" Residential			72	\$209.57	\$15,089
	3" Residential			0	\$458.43	\$0
	4" Residential			0	\$1,417.35	\$0
	Consumption (0 - 11,000 gallons)	220,158	\$0.69			\$151,909
	Total Residential	220,158		41,712		\$1,443,900
	<u>Commercial</u>					
	5/8" Commercial			288	\$26.20	\$7,546
	3/4" Commercial			108	\$39.30	\$4,244
	1" Commercial			84	\$65.49	\$5,501
	1 1/2" Commercial			96	\$130.98	\$12,574
	2" Commercial			156	\$209.57	\$32,693
	3" Commercial			36	\$458.43	\$16,503
	4" Commercial			12	\$1,417.35	\$17,008
	Consumption (All)	36,146	\$2.68			\$96,871
	Total Commercial	36,146		780		\$192,940
	<u>Hotel and Motel</u>					
	Hotel & Motel Service			3,060	\$10.47	\$32,038
	Consumption (All)	12,480	\$2.68			\$33,446
	Total Hotel and Motel	12,480		3,060		\$65,484
	<u>Golf Course Irrigation</u>					
	Effluent Water - Golf Course			36	\$4,349.68	\$156,588
	Consumption (All)	193,081	\$0.19			\$36,685
	Total Golf Course Irrigation	193,081		36		\$193,273
	Sewer Service Total	461,865		45,588		\$1,895,597
	Total Miscellaneous Revenues <sup>2</sup>					\$4,439
	Total Sewer Operating Revenues					\$1,900,036
Total Water & Sewer Operating Revenues					\$8,506,845	

Calculation Methodology:

(1) Consumption and Units reflected as reported during test year (Corrected through URR#2). Growth factor not included for comparison purposes.

(2) Customer Tap Fees, Deposits and Interest on Deposits not included in computations.

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Office of Regulatory Staff  
Revenue Impact Analysis  
Kiawah Island Utility, Inc.  
Docket No. 2018-257-WS

ORS Calculated Proposed Revenue at ORS Proposed Rates

A	B	C	D	E	F	G	H	I
	Customer Classification	Consumption in 1,000 Gallons <sup>1</sup>	Usage Charge per 1,000 gallons	Annualized Service Units <sup>1</sup>	Base Facility Charge (BFC)	Proposed Revenue	Increase Amount	% Increase
	<b>Residential</b>							
	5/8" Residential			34,740	\$36.15	\$1,255,851	\$64,616	5.41%
	3/4" Residential			4,464	\$54.22	\$242,038	\$12,410	5.41%
	1" Residential			3,396	\$90.37	\$306,897	\$15,758	5.41%
	1 1/2" Residential			120	\$180.74	\$21,689	\$1,114	5.41%
	2" Residential			72	\$289.19	\$20,822	\$1,069	5.41%
	3" Residential			0	\$632.61	\$0	\$0	5.41%
	4" Residential			0	\$1,815.50	\$0	\$0	5.41%
	Consumption (0 - 11,000 gallons)	228,530	\$4.44			\$1,014,673	\$52,562	5.41%
	Consumption (11,001 - 50,000 gallons)	186,788	\$4.98			\$930,204	\$48,565	5.41%
	Consumption (Over 50,000 gallons)	42,409	\$5.30			\$224,768	\$11,451	5.41%
	<b>Total Residential</b>	<b>457,727</b>		<b>42,792</b>		<b>\$4,016,942</b>		
	<b>Commercial</b>							
	5/8" Commercial			528	\$36.15	\$19,087	\$982	5.41%
	3/4" Commercial			168	\$54.22	\$9,109	\$467	5.41%
	1" Commercial			168	\$90.37	\$15,182	\$779	5.41%
	1 1/2" Commercial			132	\$180.74	\$23,858	\$1,225	5.41%
	2" Commercial			156	\$289.19	\$45,114	\$2,315	5.41%
	3" Commercial			36	\$632.61	\$22,774	\$1,169	5.41%
	4" Commercial			12	\$1,815.50	\$21,786	\$1,118	5.41%
	Consumption (All)	61,088	\$5.30			\$323,766	\$16,493	5.41%
	<b>Total Commercial</b>	<b>61,088</b>		<b>1,200</b>		<b>\$480,676</b>		
	<b>Hotel and Motel</b>							
	Hotel & Motel Service			3,060	\$14.51	\$44,401	\$2,265	5.41%
	Consumption (All)	12,480	\$5.30			\$66,144	\$3,370	5.41%
	<b>Total Hotel and Motel</b>	<b>12,480</b>		<b>3,060</b>		<b>\$110,545</b>		
	<b>Golf Course Irrigation</b>							
	Deep Well Water - Golf Course Irrigation			36	\$1,123.19	\$40,435	\$2,076	5.41%
	Consumption (All)	76,098	\$0.30			\$22,829	\$1,522	5.41%
	Potable Water - Golf Course Irrigation			48	\$859.50	\$41,256	\$2,117	5.41%
	Consumption (All)	32,837	\$5.30			\$174,036	\$8,866	5.41%
	<b>Total Golf Course Irrigation</b>	<b>108,935</b>		<b>84</b>		<b>\$278,556</b>		
	<b>Irrigation Service</b>							
	5/8" Irrigation			2,124	\$36.15	\$76,783	\$3,951	5.41%
	3/4" Irrigation			960	\$54.22	\$52,051	\$2,669	5.41%
	1" Irrigation			1,152	\$90.37	\$104,106	\$5,345	5.41%
	1 1/2" Irrigation			288	\$180.74	\$52,053	\$2,673	5.41%
	2" Irrigation			336	\$289.19	\$97,168	\$4,986	5.41%
	3" Irrigation			60	\$632.61	\$37,957	\$1,949	5.41%
	4" Irrigation			0	\$1,815.50	\$0	\$0	5.41%
	Consumption (0 - 50,000 gallons)	110,000	\$4.98			\$547,800	\$28,600	5.41%
	Consumption (Over 50,000 gallons)	189,498	\$5.30			\$1,004,339	\$51,164	5.41%
	<b>Total Irrigation Service</b>	<b>299,498</b>		<b>4,920</b>		<b>\$1,972,257</b>		
	<b>Fire Hydrant Service</b>							
	Fire Hydrant			497	\$110.00	\$54,670	-\$12,321	-18.39%
	<b>Total Fire Hydrant Service</b>					<b>\$54,670</b>		
	<b>Fire Line Service</b>							
	2" Fire Line			228	\$8.53	\$1,945	\$100	5.41%
	3" Fire Line			12	\$15.61	\$187	\$9	5.41%
	4" Fire Line			96	\$27.06	\$2,598	\$134	5.41%
	6" Fire Line			0	\$54.12	\$0	\$0	5.41%
	8" Fire Line			12	\$94.80	\$1,138	\$59	5.41%
	<b>Total Fire Line Service</b>					<b>\$5,868</b>		
	<b>Water Service Total</b>	<b>939,728</b>		<b>52,056</b>		<b>\$6,919,514</b>	<b>\$341,627</b>	<b>5.19%</b>
	<b>Total Miscellaneous Revenues <sup>2</sup></b>					<b>\$29,230</b>	<b>\$308</b>	<b>1.06%</b>
	<b>Total Water Operating Revenues</b>					<b>\$6,948,744</b>	<b>\$341,935</b>	<b>5.18%</b>

Calculation Methodology:

- (1) Consumption and Units reflected as reported during test year (Corrected through URR#2). Growth factor not included for comparison purposes.  
(2) Customer Tap Fees, Deposits and Interest on Deposits not included in computations.



**Exhibit MPS-2**  
**Page 4 of 4**

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A	B	C	D	E	F	G	H	I
	Customer Classification	Consumption in 1,000 Gallons <sup>1</sup>	Usage Charge per 1,000 gallons	Annualized Service Units <sup>1</sup>	Base Facility Charge (BFC)	Proposed Revenue	Increase Amount	% Increase
SEWER	<u>Residential</u>							
	5/8" Residential			34,452	\$27.62	\$951,564	\$48,922	5.41%
	3/4" Residential			3,984	\$41.43	\$165,057	\$8,486	5.41%
	1" Residential			3,084	\$69.03	\$212,889	\$10,918	5.41%
	1 1/2" Residential			120	\$138.07	\$16,568	\$850	5.41%
	2" Residential			72	\$220.91	\$15,906	\$817	5.41%
	3" Residential			0	\$483.23	\$0	\$0	5.41%
	4" Residential			0	\$1,494.03	\$0	\$0	5.41%
	Consumption (0 - 11,000 gallons)	220,158	\$0.73			\$160,715	\$8,806	5.41%
	Total Residential	220,158		41,712		\$1,522,699		
	<u>Commercial</u>							
	5/8" Commercial			288	\$27.62	\$7,955	\$409	5.41%
	3/4" Commercial			108	\$41.43	\$4,474	\$230	5.41%
	1" Commercial			84	\$69.03	\$5,799	\$298	5.41%
	1 1/2" Commercial			96	\$138.07	\$13,255	\$681	5.41%
	2" Commercial			156	\$220.91	\$34,462	\$1,769	5.41%
	3" Commercial			36	\$483.23	\$17,396	\$893	5.41%
	4" Commercial			12	\$1,494.03	\$17,928	\$920	5.41%
	Consumption (All)	36,146	\$2.82			\$101,932	\$5,061	5.41%
	Total Commercial	36,146		780		\$203,201		
	<u>Hotel and Motel</u>							
	Hotel & Motel Service			3,060	\$11.04	\$33,782	\$1,744	5.41%
	Consumption (All)	12,480	\$2.82			\$35,194	\$1,748	5.41%
	Total Hotel and Motel	12,480		3,060		\$68,976		
<u>Golf Course Irrigation</u>								
Effluent Water - Golf Course			36	\$4,585.00	\$165,060	\$8,472	5.41%	
Consumption (All)	193,081	\$0.20			\$38,616	\$1,931	5.41%	
Total Golf Course Irrigation	193,081		36		\$203,676			
Sewer Service Total	461,865		45,588		\$1,998,552	\$102,955	5.43%	
Total Miscellaneous Revenues <sup>2</sup>						\$4,532	\$93	2.10%
Total Sewer Operating Revenues						\$2,003,084	\$103,048	5.42%
Total Water & Sewer Operating Revenues						\$8,951,828	\$444,983	5.23%

(1) Consumption and Units reflected as reported during test year (Corrected through URR#2). Growth factor not included for comparison purposes.  
(2) Customer Tap Fees, Deposits and Interest on Deposits not included in computations.

**Office of Regulatory Staff**  
**Customer Growth**  
**Kiawah Island Utility, Inc.**  
***Docket No. 2018-257-WS***

Exhibit MPS-3

<b>Water</b>	<b><u>Date</u></b>	<b><u># of Customers</u></b>
	1/1/2017	4,082
	12/31/2017	4,110
	Average	4,096
	Growth Factor	0.3418%

<b>Sewer</b>	<b><u>Date</u></b>	<b><u># of Customers</u></b>
	1/1/2017	3,529
	12/31/2017	3,542
	Average	3,536
	Growth Factor	0.1697%

<b>Combined Operations</b>	<b><u>Date</u></b>	<b><u># of Customers</u></b>
	1/1/2017	7,611
	12/31/2017	7,652
	Average	7,632
	Growth Factor	0.2621%

Responses provided in AIR 1.040

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**EDIT Amortization**  
**Kiawah Island Utility, Inc.**  
***Docket No. 2018-257-WS***

(1) - Source: Utility Rates Request #5 - supplemental.

## Excess Revenue Liability

# Kiawah Island Utility, Inc.

***Docket No. 2018-257-WS***

**Kiawah Island Utility, Inc.**

## Decrease of Federal Income Tax Rate to 21%

<u>Line No.</u>	<u>Item</u>	<u>ORS Pro-Forma Prior to Rate Increase</u>	<u>Reflect 21% Federal Income Tax Rate</u>
1	Operating revenues	8,506,845	8,506,845
2	Operating expenses	6,167,965	6,167,965
3	Taxes other than Income	684,151	684,151
4	Interest expense	485,009	485,009
5	Taxable income (L1 - (Sum (L2 thru L4)))	1,169,720	1,169,720
6	State income tax (L5 * 5.0% tax rate)	58,485	58,485
7	Federal income tax ((L5-L6) * tax rate)	377,820	233,359
8	Net income (L5 - L6 - L7)	733,415	877,876
9	Add back: interest expense (L4)	485,009	485,009
10	Net income for return (L8 + L9)	1,218,424	1,362,885
11	Cumulative change in net income for return		144,461
12	Retention factor		75.05%
13	Annual Revenue impact of cumulative change		(192,486)
14	Daily Revenue Impact (L13/365)		(527)
15	<b>Regulatory Liability Calculation (1/1/18 - 4/23/19)</b>		<b>\$ (251,379)</b>

**Exhibit MPS-6**  
**Page 1 of 2**

# Water

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**Exhibit MPS-6**  
**Page 2 of 2**

# Sewer

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**SCHEDULE OF ORS PROPOSED RATES AND CHARGES**

**RATE SCHEDULE NO. 1 RESIDENTIAL SERVICE**

AVAILABILITY- Available within the Company's service area.

APPLICABILITY-Applicable to any residential customer for any purpose.

**Water Service Charges**

	<u>Current</u>	<u>ORS Proposed</u>
A. Base Facilities Charge		
5/8" meter	\$ 34.29	\$ 36.15 /mo.
3/4" meter	\$ 51.44	\$ 54.22 /mo.
1" meter	\$ 85.73	\$ 90.37 /mo.
1.5" meter	\$ 171.46	\$ 180.74 /mo.
2" meter	\$ 274.35	\$ 289.19 /mo.
3" meter	\$ 600.14	\$ 632.61 /mo.
4" meter	\$1,722.32	\$1,815.50 /mo.
Base Facilities Charge for water service with meters larger than 4" shall be: <u>Maximum recommended meter capacity (gpm) x \$36.15 per mo.</u> 20 gpm		
B. Consumption Charge		
All up to 11,000 gal/mo.	\$ 4.21/1000 gal.	\$ 4.44/1000 gal.
C. Excess Consumption Charge #1		
All over 11,000 gal/mo. and up to 50,000 gal/mo.	\$ 4.72/1000 gal.	\$ 4.98/1000 gal.
D. Excess Consumption Charge #2		
All over 50,000 gal/mo.	\$ 5.03/1000 gal.	\$ 5.30/1000 gal.

**Sewer Service Charges**

A. Base Facilities Charge		
5/8" water meter	\$ 26.20	\$ 27.62 /mo.
3/4" water meter	\$ 39.30	\$ 41.43 /mo.
1" water meter	\$ 65.49	\$ 69.03 /mo.
1.5" water meter	\$ 130.98	\$ 138.07 /mo.
2" water meter	\$ 209.57	\$ 220.91 /mo.
3" water meter	\$ 458.43	\$ 483.23 /mo.
4" water meter	\$1,417.35	\$1,494.03 /mo.

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$27.62 \text{ per mo.}}{20 \text{ gpm}}$$

## Tap-in Fees

## RATE SCHEDULE NO. 2 COMMERCIAL SERVICE

### Water Service Charges

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$36.15 \text{ per mo.}}{20 \text{ gpm}}$$

Page 2 of 8



A.	Base Facilities Charge		
	5/8" water meter	\$ 26.20	\$ 27.62 /mo.
	3/4" water meter	\$ 39.30	\$ 41.43 /mo.
	1" water meter	\$ 65.49	\$ 69.03 /mo.
	1.5" water meter	\$ 130.98	\$ 138.07 /mo.
	2" water meter	\$ 209.57	\$ 220.91 /mo.
	3" water meter	\$ 458.43	\$ 483.23 /mo.
	4" water meter	\$1,417.35	\$1,494.03 /mo.

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$27.62 \text{ per mo.}}{20 \text{ gpm}}$$

## Tap-in Fees

	<u><b>Water Tap-in Fees</b></u>	<u><b>Sewer Tap-in Fees</b></u>
5/8" meter	\$ 500.00	\$ 500.00
3/4" meter	\$ 750.00	\$ 750.00
1" meter	\$ 1,250.00	\$ 1,250.00
1.5" meter	\$ 2,500.00	\$ 2,500.00
2" meter	\$ 4,000.00	\$ 4,000.00
3" meter	\$ 8,750.00	\$ 8,750.00

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$500.00}{20 \text{ gpm}}$$

### **RATE SCHEDULE NO. 3 HOTEL AND MOTEL SERVICE**

**AVAILABILITY**- Available within the Company's service area.

**APPLICABILITY**- Applicable to all hotel and motel customers for any purpose.

## Water Service Charges

	<u>Current</u>	<u>ORS Proposed</u>
Base Facilities Charge	\$ 13.77/mo./room	\$ 14.51/mo./room
All Consumption	\$ 5.03/1000 gal.	\$ 5.30/1000 gal.

**Sewer Service Charges**

Base Facilities Charge	\$ 10.47/mo./room	\$ 11.04/mo./room
All Consumption	\$ 2.68/1000 gal.	\$ 2.82/1000 gal.

**Tap-in Fees**

Water Tap-in Fee	\$220.00	\$ 220.00/room
Sewer Tap-in Fee	\$220.00	\$ 220.00/room

**RATE SCHEDULE NO. 4 IRRIGATION SERVICE**

**AVAILABILITY-** Available within the Company's service area. The Company reserves the right to limit or reduce the irrigation service available when, in its sole judgement, its water system conditions require such restrictions.

**APPLICABILITY-** Applicable only to customers who anticipate substantial potable water use which will not be returned to the Company's wastewater treatment system such as irrigation. Such water consumption shall be metered separately from any water use supplied under other rate schedules.

**Water Service Charges**

	<u>Current</u>	<u>ORS Proposed</u>
A. Base Facilities Charge		
5/8" meter	\$ 34.29	\$ 36.15 /mo.
3/4" meter	\$ 51.44	\$ 54.22 /mo.
1" meter	\$ 85.73	\$ 90.37 /mo.
1.5" meter	\$ 171.46	\$ 180.74 /mo.
2" meter	\$ 274.35	\$ 289.19 /mo.
3" meter	\$ 600.14	\$ 632.61 /mo.
4" meter	\$1,722.32	\$1,815.50 /mo.
Base Facilities Charge for water service with meters larger than 4" shall be: <u>Maximum recommended meter capacity (gpm) x \$36.15 per mo.</u>		
	20 gpm	
B. Consumption Charge		
All up to 50,000 gal/mo.	\$ 4.72/1000 gal.	\$ 4.98/1000 gal.
C. Excess Consumption Charge		
All over 50,000 gal/mo.	\$ 5.03/1000 gal.	\$ 5.30/1000 gal.

**Tap-in Fees**

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5/8" meter	\$ 500.00	\$ 500.00
3/4" meter	\$ 750.00	\$ 750.00
1" meter	\$1,250.00	\$ 1,250.00
1.5" meter	\$2,500.00	\$ 2,500.00
2" meter	\$4,000.00	\$ 4,000.00
3" meter	\$8,750.00	\$ 8,750.00

Water tap-in fee where water meter is larger than 3" shall be:

$$\frac{\text{Maximum recommended meter capacity (gpm)} \times \$500.00}{20 \text{ gpm}}$$

**RATE SCHEDULE NO. 5 FIRE HYDRANT SERVICE**

AVAILABILITY- Available within the Company's service area.  
APPLICABILITY- Applicable to fire hydrants connected to Company's water mains.

**Water Service Charges**

Fire hydrant payable semiannually in advance for fire fighting service.

<u>Current</u>	<u>ORS Proposed</u>
\$ 134.79/hydrant	\$ 110.00/hydrant

When temporary water service from a hydrant is requested by a contractor or others, a meter will be installed and the charge will be:  
\$8.00 for each day of use, PLUS \$5.30/1000 gals for ALL water used, PLUS a \$50.00 security deposit.

**RATE SCHEDULE NO. 6 GOLF COURSE IRRIGATION**

AVAILABILITY- Available within the Company's service area.  
APPLICABILITY- Applicable for golf course irrigation where the customer agrees to take as a minimum quantity the treated effluent from the wastewater treatment plant.

**Water Service Charges**

	<u>Current</u>	<u>ORS Proposed</u>
A. Effluent water will be billed at a rate of:		
Base Facilities Charge	\$4,349.68/mo.	\$4,585.00/mo.
per Golf Course		

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	Consumption	\$ 0.19/1000 gal.	\$ 0.20/1000 gal.
B.	Deep well water will be billed at a rate of:		
	Base Facilities Charge	\$1,065.54/mo.	\$1,123.19/mo.
	Per Golf Course		
	Consumption	\$ 0.28/1000 gal.	\$ 0.30/1000 gal.
C.	Potable water will be billed at a rate of:		
	Base Facilities Charge	\$ 815.39/mo.	\$ 859.50/mo.
	per Golf Course		
	Consumption	\$ 5.03/1000 gal.	\$ 5.30/1000 gal.

**RATE SCHEDULE NO. 7 FIRE LINE SERVICE**

AVAILABILITY- Available within the Company's service area.

APPLICABILITY- Applicable for private fire lines.

**Water Service Charges**

	<u>Current</u>	<u>ORS Proposed</u>
Base Facilities Charge		
2" Line	\$ 8.09/mo.	\$ 8.53/mo.
3" Line	\$ 14.81/mo.	\$ 15.61/mo.
4" Line	\$ 25.67/mo.	\$ 27.06/mo.
6" Line	\$ 51.34/mo.	\$ 54.12/mo.
8" Line	\$ 89.93/mo.	\$ 94.80/mo.

**Tap-in Fees**

2" Line	\$ 4,000.00	\$ 4,000.00
3" Line	\$ 8,750.00	\$ 8,750.00
4" Line	\$25,000.00	\$25,000.00

Water tap-in fee where the service is larger than 4" shall be based on the tap-in fee schedule as listed in the Commercial Service Schedule No. 2.

**CHARGES FOR SERVICE DISCONTINUANCE, RECONNECTION  
AND OTHER MISCELLANEOUS SERVICE CHARGES**

1. When a customer requests discontinuance of service for the purpose of not receiving a monthly statement, the Company shall charge the equivalent of three months of basic facilities charges for both water and sewer service and require payment of such charges when for any reason service is restored to that particular customer.
2. Reimbursement of costs to make repairs to services or meters caused by others will be charged at actual cost as allowed per PSC Regulations 103-726 and R 103.733.5.
3. Whenever service is disconnected for violation of rules and regulations, nonpayment of bills or fraudulent use of service, the Company will charge a \$70.00 fee to restore service.
4. A service fee of \$25.00 shall be charged by the Company for non-routine, non-emergency service performed for the customer on the customer's side of the meter.
5. Delinquent Notification Fee - A fee of \$20.00 shall be charged each customer to whom the Company mails a notice of discontinuance of service as required by the Commission rules prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notice to the customer creating the cost.
6. Customer Initiation Fee - A one-time fee of \$25.00 will be charged to each new account to defray costs of initiating service.
7. Return Check Fee - When a check is returned from the bank for Non-Sufficient Funds, a fee equal to the maximum amount permitted by S.C. Code Ann. Section 34-11-70 will be charged.
8. Safe Drinking Water Fee - If the South Carolina Department of Health and Environmental Control charges the Company an assessment based on customer units served by the Company, the Company may bill its customers for the applicable unit cost of that assessment. The charge shall be identified on a separate billed item, identified as the SDW fee and included in the total of the service billing.

## PURCHASED WATER ADJUSTMENT

Kiawah Island Utility, Inc. ("Company") purchases its potable water from the St. John's Water Company ("St. John's"), which in turn purchases the water from the Commissioners of Public Works of the City of Charleston ("CPW"). Whenever CPW increases the price of water sold to St. John's, the increase in price is passed through to the Company pursuant to the water purchase agreement between the Company and St. John's.

The water purchase agreement also provides, as part of the purchased water price, a pro-rata share of St. John's annual operation and maintenance costs to be charged to the Company. Therefore, the Company's revenue requirement for purchased water is made up of the water unit price per thousand gallons and the operation and maintenance costs charged by St. John's.

Accordingly, whenever there is a price adjustment for the purchase of potable water to Kiawah Island Utility, Inc. by the St. John's Water Company, the following billing adjustment shall be made by the Company to its customer rates:

### 1. Billing Adjustment

In the event that St. John's adjusts (whether an increase or decrease) the unit price per 1,000 gallons and/or the operation and maintenance charges related to the purchase of potable water, the following billing adjustment practice would apply:

- (a) If the unit price is adjusted the cost change per 1,000 gallons would be passed through to the customers as an adjustment in like amount to the consumption charge on their water bill.

Example: The unit price of purchased water is increased by two cents per 1,000 gallons. The consumption charge on the customer's bill would reflect a two cent per 1,000 gallon increase.

- (b) If the pro-rata operation and maintenance charge is adjusted the cost change per 1,000 gallons (based on the most recent 12 months of potable water billed) would be passed through to the customers as an adjustment to the consumption charge on their water bill.

Example: The annual operation and maintenance charge is increased by \$18,000 and the most recent 12 months of potable water billed is 900,000 thousand gallons. The consumption charge on the customer's bill would reflect a two cent per 1,000 gallon increase.

### 2. Notification

Any special billing adjustment shall not be billed until the following conditions are met:

- (a) The Company shall furnish the South Carolina Public Service Commission satisfactory proof of the basis for the adjustment and the billing method to be utilized at least sixty (60) days prior to its proposed effective date.
- (b) The Company shall furnish thirty (30) days prior written notice to the customers affected by the Purchased Water Adjustment advising them of the basis for the billing adjustment and its effective date.